

CORPORATE GOVERNANCE STATEMENT

In accordance with the fifth paragraph of Article 70 of the Companies Act, and the recommendations of the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State, Telekom Slovenije, d. d.

hereby declares

- that the governance of Telekom Slovenije, d. d. during the 2016 financial year was in line with valid legislation, the rules and recommendations of the Ljubljana Stock Exchange, the recommendations of Slovenski državni holding, d. d. and the Company's internal acts; and
- that Telekom Slovenije, d. d., as a public interest entity whose securities are traded on the regulated securities market and as a company with capital assets of the State, took into account corporate governance recommendations set out in the following documents to the greatest extent possible in its operations during 2016:
 - the Corporate Governance Code adopted on 8 December 2009 by the Ljubljana Stock Exchange, Slovenian Directors' Association and the Managers' Association of Slovenia, and the Recommendations to Public Companies Regarding Notification adopted by the Ljubljana Stock Exchange on 28 October 2016. Both documents are publicly accessible on the Ljubljana Stock Exchange's website at www.ljse.si in both Slovene and English; and
 - the **Corporate Governance Code for Companies with Capital Assets of the State**, which was adopted by Slovenski državni holding, d. d. in March 2016, and the **Recommendations and Expectations of Slovenski državni holding** from February 2016. Both documents are accessible at the website www.sdh.si.

In its work and operations during 2016, Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] also complied with the guidelines set out in the Code of Business Ethics of Telekom Slovenije, d. d. of 27 March 2012 and 5 June 2012, which is published on the Company's website at www.telekom.si.

The corporate governance statement is an integral part of the audited annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016. It relates to the period 1 January 2016 to 31 December 2016. The corporate governance statement is accessible in electronic form, for a minimum of five years from the date of its publication, on the Company's website at www.telekom.si and in the Ljubljana Stock Exchange's electronic information system at <http://seonet.ljse.si>.

Telekom Slovenije provides explanations below of deviations from individual recommendations of the Corporate Governance Code, the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Relations with shareholders

Recommendation 5.2:

Telekom Slovenije did not organise the collection of powers of attorney for the General Meeting of Shareholders in 2016, nor did it receive from individuals or institutions notification regarding the intended organised collection of powers of attorney for the General Meeting of Shareholders.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH CAPITAL ASSETS OF THE STATE

Supervisory board

Competence profile for members of a supervisory board – recommendation 6.5.1

Telekom Slovenije deviates in part from this recommendation. In accordance with the aforementioned recommendation, Telekom Slovenije's Supervisory Board formulated criteria and professional profiles for members of the Company's Supervisory Board [competence profile] in July 2016, taking into account the specific nature of the Company. The competence profile was defined as a trade secret by the Supervisory Board, and was therefore not published on the Company's website.

Audit committee – recommendation 6.12.2

Telekom Slovenije deviates in part from this recommendation. Given the current relevance and complexity of individual matters, the Supervisory Board's Audit Committee met at 12 sessions, which exceeds the recommended number.

Management board or senior management

Remuneration of members of a management board – recommendation 7.3

Telekom Slovenije deviates in part from this recommendation, as the Supervisory Board took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities [Official Gazette of the Republic of Slovenia, Nos. 21/10 and 8/11] when defining the remuneration of Management Board members.

Transparency of operations and reporting

Disclosure of the remuneration and other rights of individual members of management and supervisory bodies – point 8.3

Telekom Slovenije deviates in part from this recommendation. The Company does not disclose the employment earnings of employee representatives of the Supervisory Board in its annual report because it does not have their consent. Telekom Slovenije and Telekom Slovenije Group companies disclose the earnings of management and supervisory bodies in their annual reports in accordance with the provisions of the Access to Public Information Act.

STATEMENT OF COMPLIANCE WITH THE RECOMMENDATIONS AND EXPECTATIONS OF SLOVENSKI DRŽAVNI HOLDING

Three-year business planning of a company/group – point 1

Telekom Slovenije deviates in part from this recommendation, as it treats its annual and strategic business plans as trade secrets. Their disclosure would have an adverse impact on the competitive position of Telekom Slovenije and the Telekom Slovenije Group as a whole. The Company published a summary of the Strategic Business Plan of the Telekom Slovenije Group for the period 2017 to 2021 with highlights from the Annual Business Plan for 2017 in the Ljubljana Stock Exchange's SEOnet system and on its own website.

Quarterly reporting on the performance of a company/group – point 2

Telekom Slovenije deviates in part from this recommendation, as it reports on the performance of the parent company and the Telekom Slovenije Group in accordance with the valid legislation to which it is bound as a joint stock company.

Transparency of procedures of making business deals involving company expenditure [ordering goods and services, donations and sponsorship] – point 3.6

Telekom Slovenije deviates in part from this recommendation. In accordance with the Company's business interests and in order to protect trade secrets arising from contractual relations and information whose disclosure would be detrimental to the competitive position of the Company or could cause damage to Telekom Slovenije, the Company does not publish data regarding a selected tenderer [procurement of goods and services], the type of transaction or

the value of the concluded transaction on its website. In accordance with the Access to Public Information Act, the Company regularly publishes information of a public nature on its website (www.telekom.si/o-podjetju/ijz) relating to donation, sponsorship, advisory and other copyright or intellectual services.

Publication of data regarding executed payments – point 4.3

Telekom Slovenije deviates in part from this recommendation, as data regarding labour costs are disclosed in annual reports.

Publication of the text of binding collective agreements and agreements concluded with employee representatives that relate to remuneration for work – point 4.4

Telekom Slovenije deviates from this recommendation. Binding collective agreements and agreements concluded with employee representatives that relate to remuneration for work are not published because the Company does not have the consent of employee representatives for such publication.

Achieving quality and excellence in the operations of companies/groups – point 5

Telekom Slovenije deviates in part from this recommendation, as it carried out a self-assessment of business excellence according to the EFQM model for the parent company in 2016.

EXPLANATIONS IN ACCORDANCE WITH THE COMPANIES ACT

Pursuant to the fifth paragraph of Article 70 of the Companies Act [ZGD-1], Telekom Slovenije hereby issues the following explanations:

A. Main features of the Company's internal control and risk management systems in relation to the financial reporting process:

The internal control system is the sum of various guidelines and policies formulated and adopted by the Management Board with the aim of managing risks associated with financial reporting as well as possible. The purpose of internal controls is to ensure efficiency and effectiveness of operations, the reliability of financial reporting and compliance with valid laws, and other external and internal regulations.

The accuracy, completeness and veracity of financial reporting is ensured through the implementation of the following internal controls:

- control over the accuracy of financial reporting data, which is ensured in different ways, e.g. through the reconciliation of accounting items with customers and suppliers;
- control over the completeness of data capture [e.g. documentation sequencing and numbering];
- control over the segregation of duties and responsibilities [e.g. separate recording and payments];
- control over access restrictions [access rights to accounting records are allocated selectively]; and
- control over supervision.

Information support is provided for the accounting process. All of the aforementioned internal controls are therefore linked with controls built into the IT infrastructure, which comprises controls over restrictions on access to the network, data and applications, and controls over the accuracy and completeness of data capture and processing.

B. Information regarding the functioning of the Company's General Meeting of Shareholders and its key competences, and a description of the rights of shareholders and how those rights are exercised:

Shareholders exercise their rights at the General Meeting of Shareholders. The General Meeting of Shareholders is convened when it benefits the Company or whenever required in accordance with the law and Articles of Association, at a minimum once a year.

The competences and functioning of the General Meeting of Shareholders are set out in the Companies Act [ZGD-1], the Articles of Association and the Rules of Procedure of the General Meeting of Shareholders.

Shareholders have the right to participate in the management of the Company, the right to dividends and the right to an appropriate share of residual assets after the Company's liquidation or bankruptcy.

Shareholders exercise their right to information in accordance with the first paragraph of Article 305 of ZGD-1 at the General Meeting of Shareholders. Detailed information regarding shareholders' rights set out in the first paragraph of Article 298, the first paragraph of Article 300, Article 301 and Article 305 of ZGD-1 are available on the Company's website at <http://www.telekom.si/o-podjetju/za-vlagatelje/skupscina-delnicarjev> following publication of the convening of the General Meeting of Shareholders.

Shareholders who are entered in the central register of securities at the KDD [Central Securities Clearing Corporation] at the close of business four days prior to the General Meeting of Shareholders [cut-off day] are entitled to participate and vote at the General Meeting of Shareholders, if they have registered in writing at the Company's registered office at least three days prior to the General Meeting of Shareholders.

The 27th General Meeting of Shareholders of Telekom Slovenije was held on 13 May 2016. The agenda, results of voting, adopted resolutions and other information regarding the course of the General Meeting of Shareholders were published on the website of the Ljubljana Stock Exchange, in the scope of SEOnet electronic notification system.

C. Information regarding the composition and functioning of management and supervisory bodies and their committees:

Management and supervisory bodies, and their committees and work are presented in section 1.12 [Corporate governance] and section 1.5 [Report of the Supervisory Board] of the 2016 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d.

At the beginning of 2016, every member of the Supervisory Board submitted a statement of compliance with the criteria of independence according to point C.3 of the appendix to the Corporate Governance Code. The new member of the Supervisory Board submitted the same statement when they assumed their function. Statements are accessible on the website at <http://www.telekom.si/o-podjetju/predstavitev/organiziranost-in-upravljanje/upravljanje-druzbe>.

D. Data and explanations related to the Mergers and Acquisitions Act:

- Structure of Telekom Slovenije's share capital

There were no changes to the structure of share capital in 2016. The value of Telekom Slovenije's share capital is EUR 272,720,664.33 and is divided into 6,535,478 ordinary registered no-par-value shares. All shares constitute one class and are issued in dematerialised form. Each share represents the same stake and corresponding amount in share capital, while all shares have been paid up in full. Each share gives the holder the right to one vote at the General Meeting of Shareholders, a proportionate share of profits [payment of dividends] and a proportionate share of residual assets after the liquidation or bankruptcy of the Company. Shares are listed on the prime securities market of the Ljubljana Stock Exchange. Detailed information regarding shares and the ownership structure is presented in section 1.14 [Share trading and ownership structure] of the 2016 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d.

- Restrictions on the transfer of shares

All shares are freely transferable.

- Qualifying holdings according to the Takeovers Act

There were two holders of a qualifying holding as set out in the Takeovers Act as at 31 December 2016: the Republic of Slovenia with 4,087,569 shares or 62.54% of share capital and Kapitalska družba, d. d. with 365,175 shares or 5.59% of the issuer's share capital.

- Holders of securities that provide special controlling rights

The Company has not issued securities that would provide special controlling rights.

- Share scheme for shareholders

The Company does not have a share scheme for shareholders.

- Restrictions on voting rights

In decision no. 0600-50/2010-38 of 4 February 2016, the Securities Market Agency [hereinafter: the Agency] ruled as follows based on point 3 of the first paragraph of Article 63 in connection with point 2 of the third paragraph of the Takeovers Act, and taking into account Article 28 of the Act amending the Takeovers Act and applying point 1 of the second paragraph of Article 498 and the third paragraph of Article 552 of the Financial Instruments Market Act:

- to lift the suspension of voting rights attached to TLSS shares issued by Telekom Slovenije, d. d., Ljubljana, together with the prohibition on the exercising of voting rights by the following parties:
 1. Slovenski državni holding, d. d.,
 2. the Republic of Slovenia,
 3. Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.,
 4. Nova Kreditna banka Maribor, d. d.,
 5. Zavarovalnica Triglav, d. d., and
 6. the Fund for the Financing of the Decommissioning of Krško Nuclear Plant [NEK]
- and to lift the prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d. as the target company in point III of the Agency's decision no. 0600-50/2010-25 of 25 January 2013, with the lifting of the aforementioned suspension of voting rights.

- Agreements between shareholders that might place any limit on the transfer of securities or voting rights

Telekom Slovenije is not aware of any such agreements.

- Rules on the Appointment and Replacement of Members of the Management and Supervisory Bodies

The Supervisory Board appoints members of the Management Board in accordance with its legal powers and statutory provisions. To that end, it prudently and responsibly assesses the fulfilment of the required qualifications. In accordance with the above, the Supervisory Board also defined the candidate selection process, additional conditions that candidates must meet and procedures for determining the appropriateness of candidates in the Criteria and Procedures for Determining the Appropriateness of Candidates for Members of the Management Board.

The Supervisory Board formulated criteria and professional profiles for members of the Company's Supervisory Board [competence profile] in June 2016, taking into account the specific nature of the Company.

- Rules on Amendments to the Articles of Association

Telekom Slovenije does not have any special rules governing changes to its Articles of Association. Changes to the Company's Articles of Association are carried in accordance with the law.

- Powers of senior management, in particular powers to issue or purchase treasury shares

At the 24th General Meeting of Shareholders of 1 July 2013, management was authorised to purchase treasury shares. That authorisation expired on 1 July 2016.

- Special agreements that come into effect, are amended or terminated on the basis of a change in control at the Company as the result of a bid as defined by the act governing mergers and acquisitions

Telekom Slovenije is not aware of any such agreements.

- Agreements concluded between a company and the members of its management body or supervisory board or employees that envisage compensation if they resign or are laid off without justification in the event of a bid as set out in the act governing mergers and acquisitions or if their employment is terminated

The Company has no such agreements in accordance with the Takeovers Act.

Telekom Slovenije constantly strives to improve corporate governance practices in its operations, including proactive corporate communication with various stakeholders. The Company communicates in the manner set out in Telekom

Slovenije, d. d.'s Corporate Governance Policy and communications strategy. Both documents are accessible on the Company's website at <http://www.telekom.si/o-podjetju/predstavitev/organiziranost-in-upravljanje/upravljanje-druzbe>.

With the listing of its shares on the prime market of the Ljubljana Stock Exchange, Telekom Slovenije undertook to comply with the relevant reporting standards. The Company once again provided investors with high-quality, timely, relevant and reliable information in 2016.

Subsidiaries of Telekom Slovenije comply with the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding via the Telekom Slovenije Group's Corporate Governance Rules, which are binding for all Telekom Slovenije Group companies. Telekom Slovenije applied the same high standards of corporate governance that apply to the parent company in the management and governance of subsidiaries.

Telekom Slovenije systematically implements activities in the area of corporate governance with the aim of ensuring the compliance of its operations with the law, regulations and internal acts. Telekom Slovenije implements compliance-related activities primarily in the following areas:

- the prevention of corruption and conflicts of interest,
- competition law,
- data protection, and
- the prevention of money laundering.

The compliance management system includes the establishment of bodies for the implementation of the compliance assurance function, the adoption, implementation and maintenance of documents related to compliance and integrity, and the definition of activities to implement the compliance assurance function.

Telekom Slovenije will continue to strive in the future to comply with and introduce the highest standards and best practices in the area of corporate governance, both at the parent company and the other companies of the Telekom Slovenije Group. To that end, it will follow the recommendations of the new Corporate Governance Code of 27 October 2016, which entered into force on 1 January 2017, and the new Recommendations to Public Companies Regarding Notification of 3 February 2017 (both documents are accessible on the Ljubljana Stock Exchange's website at www.ljse.si), as well as the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding, which are published on the latter's website www.sdh.si.

President of the Management Board:

Rudolf Skobe, MSc



President of the Supervisory Board:

Borut Jamnik

